

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SPC-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 DODE-00 PM-07 H-03 L-03 PA-04 PRS-01 USIA-15

TAR-02 INT-08 FEA-02 SCI-06 AGR-20 DRC-01 /222 W

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R 262146Z MAR 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9062

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:

TAGS: EFIN, UK

SUBJECT: DOMESTIC ASPECTS OF UK BUDGET

BEGIN SUMMARY: ON MARCH 26, IN A BUDGET DESCRIBED AS
"NEUTRAL" BUT ERRING ON THE CAUTIOUS SIDE, CHANCELLOR OF
THE EXCHEQUER DENIS HEALEY SET FORTH THE GOVERNMENT'S
ECONOMIC POLICY AND ITS FORECAST OVER THE NEXT FEW MONTHS.
HEALEY PROMISED A SECOND BUDGET LATER THIS YEAR. IN

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TODAY'S BUDGET SPEECH, HEALEY, WHO WAS ON HIS FEET AND
SPOKE FOR 2 HOURS AND 17 MINUTES, CONCENTRATED ON REDIS-

TRIBUTION OF INCOME THROUGH THE TAX MECHANISM, PARTICULARLY CLOSING TAX LOOPHOLES AND RAISING RATES ON HIGHER INCOME EARNERS WHILE ALSO RAISING THE TAX THRESHOLD FOR LOWER INCOME EARNERS. THE VAT RATE WILL REMAIN UNCHANGED BUT COVERAGE IS BROADENED MOST IMPORTANTLY TO GASOLINE. AN OVERALL INCREASE IN EXPENDITURE OF 700 MILLION POUNDS IS FORESEEN IN THIS BUDGET, BASICALLY FROM FOOD SUBSIDIES, INCREASED PENSIONS AND HOUSING. THE BUDGET FORESEES AN INCREASE IN TAX REVENUES OF 1.4 BILLION POUNDS. THIS, HEALEY SAID, WILL REDUCE THE PUBLIC SECTOR BORROWING REQUIREMENT BY 700 MILLION POUNDS, TO ABOUT 2.7 BILLION POUNDS. HEALEY ALSO ANNOUNCED NEW PRICE RISES FOR STEEL, COAL, AND ELECTRICITY. END SUMMARY

1. THE TREASURY FORECAST FOR THE UK ECONOMY IN 1974 INDICATES NO GROWTH IN REAL GDP. THE FORECAST EXPECTS THE FIRST HALF OF THE YEAR TO BE DOWN BY 5 PERCENT COMPARED WITH THE SECOND HALF OF 1973, AND THE SECOND HALF OF 1974 TO BE UP BY 2.5 PERCENT OVER THE SAME PERIOD. AMONG ELEMENTS MAKING UP THE FORECAST, PRIVATE FIXED INVESTMENT DURING THE YEAR IS FORECAST TO RISE AT A SLIGHTLY LOWER RATE THAN IN 1973 (5.5 PERCENT), WHILE INVENTORY ACCUMULATION IS FORECAST TO BE HIGH, MAINLY IN THE SECOND HALF. IN REAL TERMS, CONSUMERS EXPENDITURE IS FORECAST NOT TO GROW OVER THE YEAR. TREASURY MAKES NO FORECAST OF INFLATION RATES, BUT HEALEY SAID THAT PRICE RISES WOULD BE "SUBSTANTIAL" THIS YEAR. HEALEY STRESSED IN HIS BUDGET PRESENTATION THE SWITCHING OF RESOURCES TO THE EXTERNAL SECTOR AND REDUCING THE PUBLIC SECTOR BORROWING REQUIREMENT.

2. THERE WERE NO GREAT SURPRISES ON PUBLIC EXPENDITURE IN THE BUDGET. DEFENSE SPENDING WILL BE CUT BY ANOTHER 50 MILLION POUNDS, MAKING TOTAL CUTS 228 MILLION POUNDS SINCE LAST DECEMBER'S "MINI-BUDGET". (SEE A-1465 OF DECEMBER 20, 1973). FOOD SUBSIDIES WILL BE INCREASED AT A COST OF ABOUT 500 MILLION POUNDS. PENSIONS WILL ALSO BE INCREASED AS WILL SUPPLEMENTAL PENSION BENEFITS AND UNEMPLOYMENT BENEFITS.

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3. A MAIN THRUST OF THE CHANCELLOR'S MESSAGE WAS ON TAXATION, IN AN OBVIOUS MOVE TO FULFILL, AS MUCH AS POSSIBLE, LABOUR'S CAMPAIGN PLEDGE TO REDISTRIBUTE INCOME. AMONG TAX CHANGES ARE:

A. INDIRECT TAXES

1. VAT RATE WILL BE THE SAME, BUT COVERAGE IS BROADENED TO INCLUDE GASOLINE, CONFECTIONARY, AND OTHER ITEMS. THE VAT ON PETROL IS ESPECIALLY SIGNIFICANT IN RAISING BY 10 PERCENT THE GASOLINE PRICE. THIS WILL IM-

PINGE DIRECTLY AND QUICKLY ON THE RETAIL PRICE LEVEL.

2. EXCISE TAXES ON ALCOHOL, CIGARETTES, AND OFF-
TRACK BETTING ARE ALL INCREASED.

B. DIRECT TAXES

1. THE CORPORATE TAX IS 52 PERCENT IN FY 73/74 WITH
A SPECIAL 42 PERCENT RATE FOR SMALL COMPANIES AND A 40
PERCENT RATE ON BUILDING SOCIETIES (SAVINGS AND LOAN
ASSOCIATIONS). HEALEY SAID OIL COMPANIES' TAXES WILL BE
DEALT WITH LATER.

C. PERSONAL TAXATION

1. THE BASIC RATE IS UP 3 PENCE ON THE POUND (3

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PERCENT). THE MINIMUM RATE IS RAISED FROM 30 TO 33 PERCENT. AT THE HIGHEST BRACKET, HOWEVER, THE RATE WILL INCREASE FROM 75 PERCENT TO 83 PERCENT.

2. PERSONAL ALLOWANCES INCREASED BY 30 POUNDS FOR SINGLE PERSONS, 90 POUNDS FOR COUPLES AND 40 POUNDS FOR EACH CHILD. OLD AGE EXEMPTION LIMITS ARE RAISED TO 85 POUNDS FOR A SINGLE PERSON AND 130 POUNDS FOR A COUPLE.

3. A SURCHARGE OF 10 PERCENT ON THE SURTAX FOR HIGHER INCOME EARNERS WITH NO EXEMPTIONS FOR THE ELDERLY (THIS HAD BEEN INTRODUCED BY THE CONSERVATIVE EX-CHANCELLOR BARBER WITH SUCH AN EXEMPTION).

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4. A 5 PERCENT HIGHER TAXING RATE WILL BE INTRODUCED FOR INCOMES OVER 4,500 POUNDS, RAISING THE RATE AT THIS LEVEL FROM 30 TO 35 PERCENT, PLUS THE ADDITIONAL 3 PERCENT INCREASE IN BASIC RATE.

5. INVESTMENT INCOME BETWEEN 1,000 POUNDS TO 2,000 POUNDS WILL HAVE A 10 PERCENT SURCHARGE.

6. TAX RELIEF FOR SOME INTEREST WILL BE RESCINDED. THIS INCLUDES OVERDRAFTS, MORTGAGE INTEREST ON SECOND HOMES, AND THE EXCESS OVER 25,000 POUNDS ON MORTGAGES ON FIRST HOMES.

7. "TAX LOOPHOLES" ON INCOME BONDS, LIFE INSURANCE, FRIENDLY SOCIETIES (FOUNDATIONS), SHARE OPTIONS AND INCENTIVE SCHEMES, AND AGGREGATING CHILDREN'S WITH PARENT'S INVESTMENT WILL BE ENDED.

8. AN ANNUAL WEALTH TAX WILL BE INTRODUCED. A "GREEN PAPER" OUTLINING THE PROPOSAL WILL BE PUBLISHED THIS SUMMER.

9. A TAX ON "LIFETIME GIFTS" (INHERITANCE) WILL BE INTRODUCED IN THE SECOND BUDGET. IT WILL BE RETROACTIVE TO MARCH 26.

10. THE TAXATION OF LAND AND PROPERTY SPECULATION INTRODUCED BY THE LAST GOVERNMENT WILL BE IMPLEMENTED.

11. THE TAXATION OF FOREIGN INCOME RULES WILL BE CHANGED (SEE SEPTTEL).

4. HEALEY ANNOUNCED PRICE RISES FOR ELECTRICITY OF 30 PERCENT, POSTAL RATES OF 1 PENCE FOR FIRST CLASS AND 1/2 PENCE ON SECOND CLASS, RAILROAD CHARGES (12.5 PERCENT PASSENGER, 15 PERCENT FREIGHT) AND STEEL (25 PERCENT). COAL PRICE INCREASES WILL BE DEFERRED UNTIL AUTUMN, AND GAS PRICES WILL NOT BE INCREASED.

5. HEALEY ALSO ANNOUNCED SEVERAL NEW SAVINGS SCHEMES: (A) A NEW NATION SAVING CERTIFICATE, (B) A NEW ISSUE OF BRITISH SAVINGS BONDS AT 9.5 PERCENT INTEREST, (C) A NEW

ISSUE OF SAVE AS YOU EARN (SAYE) CERTIFICATES AT 11.9 PERCENT FOR 5 YEARS MATURITY AND 12.6 PERCENT FOR 7 YEARS.

6. IN THE SOCIAL AREA, HEALEY'S MAIN CONCERN, AFTER PENSIONS AND FOOD PRICES, WAS HOUSING. HE ANNOUNCED THAT LOCAL AUTHORITIES WILL BE ENCOURAGED TO BUY EMPTY HOUSES
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AND ARE TO INCREASE THEIR BUILDING PROGRAMS. HE ALSO SAID THAT THE RENT FREEZE ANNOUNCED TWO WEEKS AGO, WILL COST 70 MILLION POUNDS IN 1974. THE TOTAL COST OF ALL HOUSING PROGRAMS WILL BE 200 MILLION POUNDS IN 1974-75, HE SAID.

7. EXPENDITURE FOR THE CONCORDE WILL BE REVIEWED AFTER THE PRESENT PROGRAM IS COMPLETE, AND EXPENDITURE FOR THE MAPLIN AIRPORT PROJECT IS TO BE REVIEWED PRIOR TO ITS COMMENCEMENT. THE EEC BUDGET CONTRIBUTION WILL ALSO BE "REVIEWED". HEALEY ADDED HERE THAT THE INCREASES IN PENSIONS, FOOD, AND HOUSING EXPENDITURES WILL OBVIATE NET BUDGET EXPENDITURE INCREASES IN OTHER AREAS.

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